Large Pamphlet

THE GRAND TRUNK ARRANGEMENTS' ACT, 1862.

To the Bondholders.

This is the title of a Bill which has passed the Canadian Legislature and received the Royal assent, but is inoperative until accepted by a majority consisting of two-thirds in number and amount of the Bond *and Shareholders* of the Company, *present* in person, or by proxy, at a meeting to be held in London on *or before* the 1st day of September next.

If there should be a greater number of shareholders present in person, or by proxy, than of bondholders, the remarkable spectacle of a debtor legally wiping out his obligations by a process other than payment, and in defiance of the protests of the creditor, will be exhibited. And, inasmuch as all the Bondholders have not the same position, but Preference Bondholders are in amount, in a minority of both the ordinary Bond and Shareholders—a combination between the latter will lay all troublesome preference claims on the shelf for ten years. Although it is clearly not the interest of the Mortgage Bondholders *as such*, to join the Shareholders in forcing the Bill on Preference Bondholders—it being evident that the latter, with their arrears, must always hold their position before the ordinary bonds, and that the effect of accumulating a preference debt, will be to place mortgage bonds, when the inevitable reconstruction takes place, as far out of reach, and make them as valueless as the shares now are—yet if any considerable amount of bonds of either class are held by Shareholders and Judgment Creditors, the conflict of interest produced by the Bill will render it difficult to determine the result. Shareholders holding bonds have an interest only through the latter, but as it is difficult for men to resign a costly fancy—particularly where they cannot bury their dead out of their sight—some may vote as Shareholders, while intending only to do so as Bondholders. As to the Judgment Creditors—the

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contractors and financial agents of the Company in whose interest it is generally understood the measure has been originated—since the Bill at least holds out the prospect of payment in full, it is to be presumed that bonds and shares owned as well as Bond and Shareholders controlled by them, will be used to secure its acceptance.

The leading features of the Bill are :

1. The act deprives the Company (or rather the Preference Bondholders) of the most certain and profitable source of revenue—now amounting to $110,000—annual postal subsidy from Canada, and $ from the Imperial Government for conveyance of troops and stores. No limit is assigned to the time during which this revenue is appropriated to Creditors who are not Bondholders, nor is there any maximum dividend named as receivable by them ; it is evidently expected, therefore, that these debts will in time be paid in full, with all arrears of interest. This is the more probable, since the receipts on military account may become a principal, and, in certain contingencies, the chief source of revenue.

2. By depriving Preference Bondholders of all recourse until 1872, it secures the payment of the leases. The Company are bound to pay £73,564 per annum for the Portland road, and earn from it only about £50,000. For the Detroit extension they have agreed to pay £36,000 per annum, where they not only do not earn anything, but have worked the line at a loss.

3. Although the Company have hitherto been unable to pay this rent, they not only do not provide by the Bill for concessions from the Lessors, as in the case of Bondholders, but they undertake to pay an additional £30,000 a year, as first charge for equipment mortgage.

4. By defining "working expenses" in the Bill, the Company take powers to pay charges, which amount to dividends on certain portions of the expenditure as much as the payment of rents is a dividend on the cost of leased lines.

1st. Working expenses embrace renewals, of course—an item just shewing its head on Grand Trunk, and which has brought up this item on the Great Western to 91 per cent. of the gross receipts.

2nd. Instead of having paid for depot grounds at Quebec, Montreal, Toronto and Sarnia, they have given mortgages for the price, on which the annual interest is $7,871, which "dividend" is by the Bill made "working expenses."

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3rd. The Seminary of Montreal, and the British-American Land Company, whose properties have been doubled in value by the construction of the road, advanced each $100,000 by way of loan. The interest on this at 6 per cent.—$12,000 per annum—is made "working expenses." The city of Montreal contributed $400,000, and her rights are saved by the Bill, and though this claim—$24,000 per annum—is not charged on "working expenses," it is by the removal of other prior ones, put on a par with the lessors and equipment mortgage. The promoters of the Bill, it may be assumed, did not willingly make this discrimination. It was the price they were obliged to pay for power to coerce the refractory minority of Bondholders in England. If neither the lessors nor Preference Bondholders have heretofore been paid, it is clear that with "working expenses" enlarged to cover any extravagance, and with the equipment mortgage and the inevitable renewals,—although there may be much uncertainty as to the payment of the rents, there can be none at all as to the fact that the provision for the funding of all arrears for the next ten years will be acted upon, and that until 1872, Preference coupons may be sealed up and placed in the bottom of the safe.

The charges having priority before the Preference Bondholders under the Bill, will consume fully 25 per cent. of the gross receipts. The "working expenses" as defined by the Bill, and increased as they must annually be by the renewals, are not likely to be less than heretofore, which has been 84 per cent.; but if reduced to 75 per cent. there is still nothing for Bondholders.

The issue then is between the Bondholders of all classes, and the Lessors and Creditors privileged by the Bill. The leases are admitted on all hands to be most improvident, and it is sheer folly to attempt to maintain them. They are of no value to the road, for if the lessors could have done half as well otherwise, they would have resumed their property when the rent was so much in arrear. The creditors, not bondholders, can only be paid at the expense of those who are not only creditors, but privileged ones, having a lien, and who were no parties to the debts incurred. It is natural that the directors and managers should struggle against handing over the property to the mortgagees; but with the Bondholders the question is simply one of self-preservation. Divested of its leases and

its debts, the road is good security for the Bonds. But the proposition to go on, postponing only what cannot be averted, is so preposterous that it can only be accounted for by the following explanation from an editorial on the Bill in one of the Montreal daily papers :—

> "The object is to secure to the London bankers and the Bank of Upper Canada payment of debts which they cannot collect, *and to postpone the final crash until this is accomplished.* When these creditors have obtained the Postal subsidy in perpetuity, and thus diminished the security of the Bondholders, by taking away a material branch of the revenue, they will let Grand Trunk slide."

If the experiment is made, Equipment mortgagees and lessors must run a race for priority of judgments, for both cannot, with the "working expenses" clause in force, be paid in full; or they will compound,—while the Bondholders look on until 1872, when *they* may take a property somewhat the worse for wear.

The subjoined statement shews the financial working of the Act. Bondholders may judge for themselves, whether there is anything in the future of the Company to warrant the expectation that, in *any one* of the years mentioned, the Company can pay the liabilities it proposes to assume.

Having, from my connection with those Preference Bondholders who have been asserting their rights in the courts of this Province, taken a deep interest in this question, and having recently submitted a full history of those proceedings, with my views upon the July, '61, scheme of re-organization, which has undergone such very important modifications at the hands of the Legislature, I feel it my duty to supplement that publication by this concise explanation of the measure as it now stands.

RICHARD SNELLING.

TORONTO, C. W.,
12th June, 1862.

TABLE SHEWING THE FINANCIAL WORKING OF "THE GRAND TRUNK ARRANGEMENTS ACT, 1862."

Interest on Equipment Mortgage of £500,000, authorized to be raised, by sec 3 of the Act, @ 5 ℔c., from 31st Dec., 1861				30,000		
Interest on 1st Preference Bonds or Stock	£2,000,000	@ 5 ℔c.		100,000		
" 2nd " "	1,111,500	@ 5 ℔c.		55,575		
" 3rd " "	500,000	@ 4 ℔c.		20,000		
" 4th " "	3,403,987	@ 3 ℔c.		102,120		
Principal of Bond Debt	£7,015,487			307,695		
Arrears due to Leased Lines, 31st Dec., 1861				219,121		
Amount payable to Leased Lines " 1862				109,564		
Amount due for Rent and Bond Interest to 31st Dec., 1862				£636,380		
The Amount payable 31st Dec., 1862.					Proposed payments.	Proportion of proposed pay-ments which is Compulsory.
Interest on Equipment Mortgage	30,000					
Arrears and Lease Rents	328,685				358,685	358,685
The Amount payable 31st Dec., 1863						
Interest on Equipment Mortgage	30,000					
Lease Rents	109,564					
Interest on bonds, all classes	277,695				417,259	139,564
By sec. 17 the arrears of Bond interest are to be capitalized from 31st Dec., 1862.						
Those arrears up to 31st Dec., 1861, amount to			£631,157			
Arrears to 31st Dec., 1862, for that year			277,695			
Arrears of Bond Interest to be capitalized			£908,852(A.)			
The Amount payable 31st Dec., 1864.						
Interest on arrears (A) funded @ 3 ℔c.	27,265					
Payments as for 1863	417,259				444,524	139,564
The Amount payable 31st Dec., 1865					444.524	139,564
Thereafter, following sec. 17, the arrears are to be converted into stock bearing interest to 1872, at the rates firstly above mentioned as regards each class of bonds thus:—						
Arrears on 1st and 2nd Preference bonds	427,342	@ 5 ℔c.	21,367			
" 3rd " "	176,563	@ 4 ℔c.	7,062			
" 4th " "	304,947	@ 8 ℔c.	9,148			
Funded arrears	£908,852		£37,577			
The Amount payable 31st Dec., 1866.						
Interest on funded arrears of Interest	37,577					
Payments as for 1863	417,259				454,836	139,564
Amount payable 31st Dec., 1867					454,836	139,564
" " 1868					454,836	139,564
" " 1869					454,836	139,564
" " 1870					454,836	139,564
" " 1871					454,836	139,564
					£4,394,008	£1,614,761
Deduct compulsory payments					1,614,761	
Accumulations of Bond Interest					2,779,247	
Principal of bond debt					7,015,487	
Arrears of interest funded					908,852	
Bond debt, 31st Dec., 1872					£10,703,586	
Share capital paid up					2,781,600	
Provincial loan					3,111,500	
					£16,596,686	
Floating debt, 30th June, 1862					3,355,536	
Probable capital of the Company, 31st December, 1871					£19,952,222	

The view taken in Canada of the Bill and its managers, can be gathered from the following extracts from three of the leading daily newspapers in the Province :—

THE SCENE IN THE HOUSE ABOUT THE GRAND TRUNK BILL.

Special Correspondence of the Montreal "Gazette."

"Profiting by the excitement that prevailed, and the apparent fact that the friends of the measure would vote through any amendment he might propose, Mr. Bell proposed to add a clause which would gradually have accomplished the amalgamation sought for by Mr. John Sandfield Macdonald's Bill. The amendment was to the effect that the five hundred thousand pounds of equipment bonds might be opened on the joint credit of the Great Western and Grand Trunk, or on the credit of either of them. It was manifest that the object was to procure the money on the credit of the Great Western, and the effect would have been to have postponed the lien of the Province upon that road. Dr. Connor put the question whether this would not be the effect, and M. Cartier evaded a direct reply. The idea seemed to flash upon the House at once that they were being cheated into the adoption of a measure practically the same as that whose unpopularity had compelled its withdrawal, and intense excitement prevailed. Mr. Bell saw that he had made a mistake and asked to withdraw the amendment. But to this several members objected, and the right to withdraw was only carried on a division. For a moment it seemed almost certain that the bill would be lost by the indiscretion of its managers. Gentlemen who had supported it up to that time cried out indignantly, "Move the six months hoist." The warm advocates of the measure looked downcast and abashed, as if they had been caught at a disgraceful trick, which they would gladly escape from; and it became evident that the chance for any more amending had passed. Although Mr. Bell had two or three others, he had to abandon them, and the bill passed. But it had a narrow escape, and the scene was one of greater excitement than I have witnessed this session."

Special Correspondence of the Toronto "Globe."

THE LAST STAGE OF THE GRAND TRUNK BILL.

"The scene in the House last night was one not soon to be forgotten. The Grand Trunk Bill was up for its third reading and final passage. The advocates of the measure had made up their minds that they would put it through at that sitting, in the most favourable shape possible. In that frame of mind, they set to work when the measure was called at half-past ten in the evening to crowd it through, no matter who might object. They were asked to delay—to avoid beginning what must be a long discussion at so late an hour; but they would not hear any remonstrance. The bill must be passed at that sitting, if hon. members were to get away this week.

"It had now got to be past one o'clock, A. M. The friends of the bill next came along with a bundle of amendments, some of which they actually reserved for the very last stage—for the usually formal motion "that the bill do now pass." Some of these amendments were merely technical; others were of the utmost importance. The most important amendment adopted was one moved by Mr. Wallbridge, which modifies the proviso carried by Mr. Dunkin the previous evening. That proviso would have prevented the Act from going into operation until a very heavy proponderance of the different classes of bondholders and shareholders had assented to it. As amended by Mr. Wallbridge's motion it is now sufficient to obtain the consent of the whole of these parties taken in the aggregate, instead of separately. Under Mr. Dunkin's proposal, it would have been more difficult to get the required consent, as a single class of bondholders, by standing out, might have nullified the bill. Now a single class, if refractory, may be overborne by the others. The great objection, however, to this amendment, in the minds of many members, was that it did not tally with the pro-

sions which have been so freely made, that every one concerned was fully satisfied with the bill. If the railway people believed that, why did they so strenuously resist Mr. Dunkin's amendment? And why did they set so much value upon the suggestion made by Mr. Wallbridge?

"An amendment, in reference to certain claims held by the Seminary of St. Sulpice, Montreal, and the British American Land Company was also carried. This was objected to, on the ground that it seemed to mean that these creditors, being near the scene of action, had had the good fortune to hear of the proposed legislation in time to remonstrate, and in that way to get their claim provided for in a way that was satisfactory to themselves. In the same way, the Corporation of Montreal sent down a petition against the bill, and by that means got a saving clause inserted at a previous stage. A gentleman, too, from Toronto, arrived here a few days since, strongly opposed to the bill, for the reason that it seemed to him to damage a claim which he had of some thousands of pounds. On arriving here he was most anxious that the bill should be defeated. The railway people, however, admitted the justice of his complaint, and managed most effectually to remove it by securing him his debt, or, at least, securing it in the event of the passage of the bill. This peculiar security, it is hinted, converted him from an opponent to a warm friend of the measure. The inference, of course, is made that, had those creditors been like many others, out of reach, they would not have been so well provided for—but that rights which had but to be named to be admitted would have been destroyed. Who can tell how many creditors, with claims quite as good as those which have been provided for, have been shut out because they have not the good fortune to live where they could hear of the bill in time to protest?

"But, suspicious as many of the circumstances connected with this bill have been, perhaps the worst piece of monœuvering was reserved for the last. At about one o'clock, when many members had gone home, and when those who had not were thoroughly tired, the House was thought ripe for a grand *coup d'etat* on the question of the final passage. So, Mr. Bell, amid his verbal and technical amendments, had one which seemed to fall little short of accomplishing the end which it had been hoped to secure by the famous fusion bill. This very remarkable amendment was very quietly introduced, as being merely designed to extend "a little further" the power of working together which the Great Western and Grand Trunk now have. To hear the few careful words of explanation offered in reference to this amendment, one might have thought that it was the most insignificant matter possible; yet, in truth, it was but little less objectionable than the fusion bill which the voice of the country so promptly rejected. The plot did not succeed. The significance of the amendment was suspected by Mr. Dunkin, Dr. Connor, Mr. Morris, and others, whose objections to the amendment were so strongly put that the feeling of the House was soon felt to be against it. A number of members asked for delay till they could have an opportunity of seeing the amendment in print. Dr. Connor pointed out that it would actually vitiate the lien of the Province upon the Great Western. Mr. Morris appealed to the Speaker to know whether it was in order to move such an extraordinary amendment at the last stage of the bill, without any previous notice whatever. The Speaker expressed his opinion that the amendment was in order, but, nevertheless, *it was a most dangerous practice.* The excitement was now becoming intense. There was a perfect medley of cries of "adjourn," "withdraw," "lost," "fusion," &c. Members who had been supporting the bill hitherto, actually called out for the six months' hoist. The railway people took the hint, and the fusion amendment was withdrawn. But they were not yet sufficiently warned to desist. Mr. Bell had other amendments with which to test the patience of the members of the House. As one after another they were unfolded, members seemed by turns amused and vexed—the feeling of vexation, however, being the predominant one. One of the French members, however, who was voting against the bill "straight through," sat watching the member for Russell, and as each new amendment was revealed, calling out, "Oh! another, another." The more trivial of these amendments were adopted, while those of any moment had to be withdrawn. Between the jeering and the ridicule with which this string of amendments was received, the railway people were at last induced to desist, though it is confessed in the lobbies to-day that they had other amendments ready if they had dared to produce them. As a last protest against the bill, Mr. Rankin moved the six months' hoist, which was defeated by a considerable majority, though many members voting against

"the hoist" were sorely tempted to serve the railway people as they deserved by assisting to kick out their bill. The final passage of the measure was the carried, and the most extraordinary sitting of this session terminated a litt before half-past two o'clock.

"The railway people have got their bill, shorn of its most objectionab features. Any one who has witnessed the manœuvreing in regard to it, c hardly wonder at the prejudices which exist against the Grand Trun Scarcely a single step in the whole business has been straightforward, T very wording of the bill was in the beginning made so obscure that it is w nigh impossible to understand its full meaning. Hours have been consumed debating the meaning of particular clauses in it. The attempt to commit Province to the capitalization scheme was most unfair. It was an attempt cheat the Legislature into doing what it was known it would not willingly Along with the profession that the Province was not to be injured by the we had the stoutest resistance to a proposal to make sure of that; and al with the profession that every one whose rights were to be affected, was agreed that they should be so affected, we had a hard struggle against ma such agreement a necessary condition in the bill. At the last stage, we suddenly developed the plot of which I have above spoken, to entrap the into sanctioning amendments of the most extraordinary character. attempt or series of attempts to impose upon the Legislature, has excited a deal of indignation alike among supporters and opponents of the bill. means of it, they narrowly escaped losing their measure altogether. I only for the reason that it was felt that it would be going a little too refuse legislation altogether to the big bankrupt, that they did not."

Correspondence of Montreal "Herald."

"A more disgraceful exhibition of political dishonesty than Mr. Carti tempt to *thimble-rig* the country out of its mortgage over the Great W Railway, on the plea of permitting the Great Western and Grand Trun panies to give their joint securities for the proposed loan of £500,000, to additional rolling stock for their joint use, was assuredly never witne any legislative assembly. The detection and exposure of the trick Connor, followed, as it was, by the immediate withdrawal (nominally Bell, but actually by Mr. Cartier, who had attempted to juggle the hou its acceptance) of the shameless proposal, produced a scene, which the witnessed it are not likely soon to forget. Twice had Dr. Connor dema Mr. Cartier whether the proposed change in the law would not postp Provincial mortgage over the road to the claims of the Company's c under the new loan, without eliciting a reply. On the question bein third time, and in very peremptory terms, the only answer was that asked leave to withdraw his amendment!"